Current evaluation of the real estate market

Executive Summary

Market environment

The economic environment continues to support the demand side of the property market. The supply side continues to be paralysed by weak construction activity.

Owner-occupied home market segment

Despite the lower number of changes in ownership, no price declines are noticeable. Excess demand is supporting prices, while financing conditions remain challenging.

Investment property market segment

The fall in interest rates has reduced the discrepancy between the price expectations of buyers and sellers in the property market and stimulated transaction momentum. In addition, property investments have become more attractive compared to fixed-interest bonds with the second interest rate change.

Rental market segment

Asking rents are continuing to rise and the discrepancy between new rents and existing rents is slowing down mobility and leading to misallocations.

Forecast

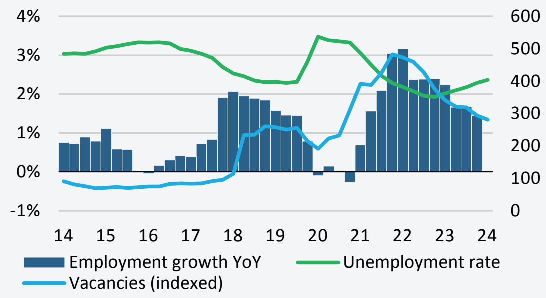
	Price development	Demand	Supply
Single-family homes	↗	↗	→
Condominiums	↗	↗	→
Rental prices	↑	↗	↘
Residential yield real estate	↗	↗	↗

Source: smzh AG. The forecasts relate to a short-term period of up to 24 months.

Economic conditions

In the first quarter of this year, the Swiss economy recorded below-average growth of just 0.30 per cent, which is in line with the European trend. A slowdown in employment growth and a slight increase in unemployment point to a normalisation of the previously strong demand for labour. Despite this slight economic slowdown, the outlook remains optimistic. Falling inflation and rising wages are fuelling private consumption and boosting consumer sentiment. With an expected economic upturn abroad in the coming years, demand for Swiss exports is also likely to increase, which should further support the growth of the Swiss economy.

Swiss labour market



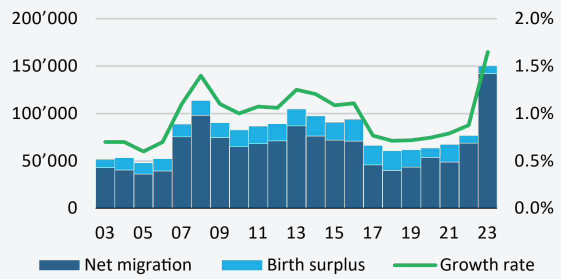
Source: Federal Statistical Office, SNB. The number of job vacancies was indexed to 100 in June 2014.

Supply and demand

After declining during the pandemic years, immigration rose again in 2022 and reached a record net migration of over 142,000 people in 2023. This figure is largely due to war refugees from Ukraine, who have now moved from the non-permanent to the permanent resident population. Strong immigration and high demand for labour have led to significant employment growth, which, together with the rise in real wages, creates a robust demand situation and promises positive price pressure on the market.

However, there are challenges on the supply side. The easing of inflation and the stable interest rate environment are not enough to remedy the ongoing structural weakness in the construction industry. The availability of housing is becoming increasingly scarce and the number of building permits remains low. This lack of new housing is leading to excess demand, which in turn is driving up rents. The supply side is expected to expand in the medium term, as falling interest rates and rising rental income will increase the profitability of investments in construction projects again.

Population growth



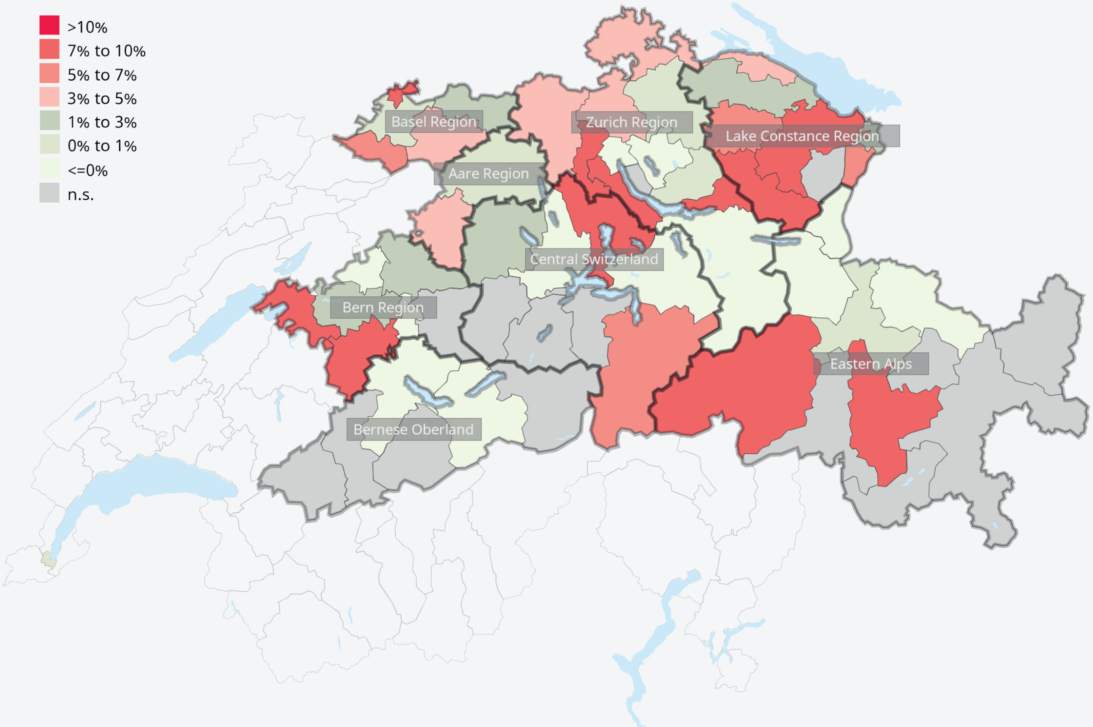
Source: Federal Statistical Office

Owner-occupied outlook

The expected slowdown in price momentum for owner-occupied residential property due to higher interest rates has not materialised so far. Despite a surprisingly early turnaround in interest rates, further price falls are no longer expected. However, the strict financing conditions, including increased affordability requirements and the necessary equity, have restricted the circle of potential buyers. This is reflected in the number of transactions, which have fallen significantly compared to the boom years during the coronavirus pandemic. Nevertheless, prices are likely to continue to rise due to persistently strong demand and the lack of pressure to sell, albeit no longer at the same rate as in recent years.

Price trend for single-family homes (as at June 2024)

Percentage change in prices per square metre compared to the previous year



Source: The map is divided into labour market regions and large labour market regions according to the statistical classification method of the Federal Statistical Office. The prices are based on supply data. n.s. = not statistically significant.

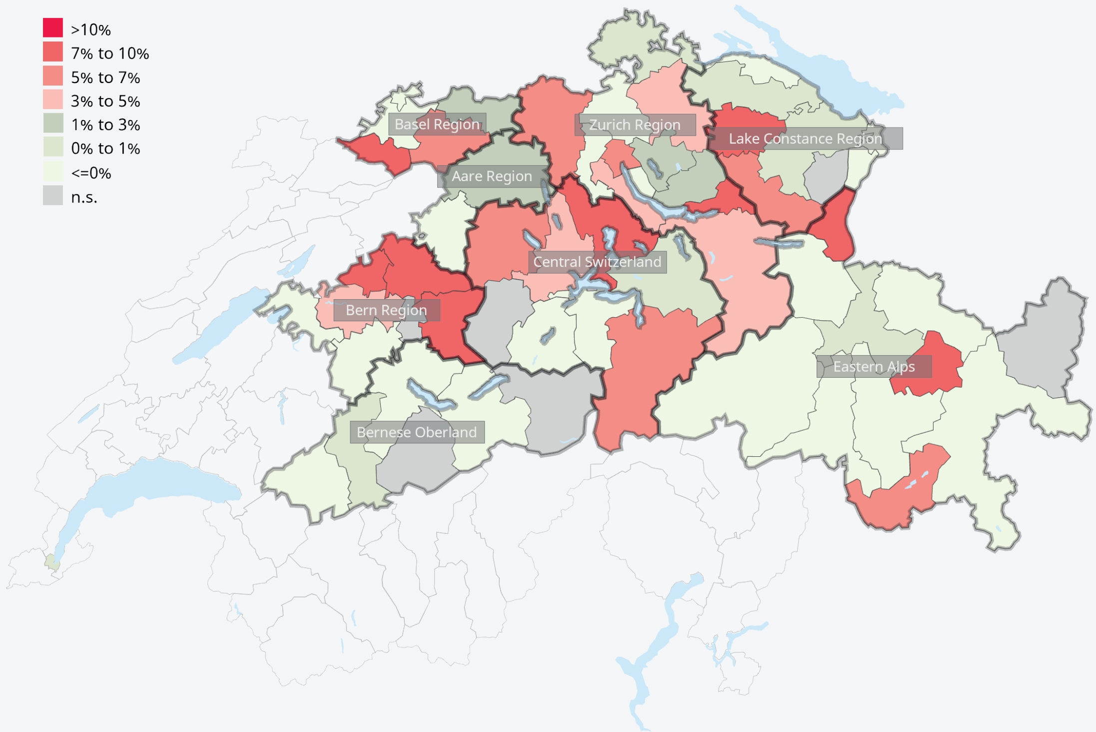
Major labour market region	Price trends for single-family homes: Price range CHF/m2 (lower midfield / median / upper midfield)	Change compared to previous year	Change compared to June 2022	Development offer (open adverts): Trend 12 Months	Trend 36 Months
Central Switzerland		7%	7%		
Zurich region		3%	8%		
Basel region		10%	10%		
Lake Constance region		9%	9%		
Bernese Oberland		5%	11%		
Switzerland		6%	12%		
Eastern Alps		-1%	12%		
Bern region		3%	3%		
Aare region		2%	1%		
	2'500 5'000 7'500 10'000 12'500	-2.5% 0.0% 2.5% 5.0% 7.5% 10.0% 12.5%	0% 5% 10% 15%		

Reading example: The median price for the large labor market region Zurich is 8'800 CHF. The prices per square meter of half of all advertised offers are between 7'100 CHF and 10'600 CHF (light blue area).

Source: The information shown is based on advertisement data.

Price trend for condominiums (as at June 2024)

Median price per square metre for condominiums (change Q2 2023 to Q2 2024)



Source: The map is divided into labour market regions and large labour market regions according to the statistical classification method of the Federal Statistical Office. The prices are based on supply data. n.s. = not statistically significant.

Major labour market region	Price development of condominiums: Price range CHF/m2 (lower midfield / median / upper midfield)	Change compared to previous year	Change compared to June 2022	Development offer (open adverts): Trend 12 Months	Trend 36 Months
Zurich region		3%	7%	→	↑
Central Switzerland		8%	13%	→	↑
Eastern Alps		1%	8%	↑	↑
Basel region		2%	4%	→	↗
Bernese Oberland		0%	3%	→	↑
Switzerland		4%	8%	↗	↑
Bern region		5%	7%	→	↑
Lake Constance region		2%	13%	↗	↑
Aare region		4%	6%	↗	↑
	2'500 / 5'000 / 7'500 / 10'000 / 12'500 / 15'000	0.0% / 2.5% / 5.0% / 7.5% / 10.0%	0% / 5% / 10% / 15%		

Reading example: The median price for the large labor market region Zurich is 8'700 CHF. The prices per square meter of half of all advertised offers are between 7'200 CHF and 11'700 CHF (light blue area).

Source: The information shown is based on advertisement data.

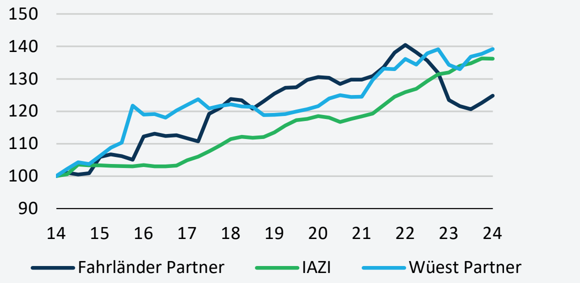
Investment property

The abrupt rise in interest rates triggered a recalibration of the property market in the last two years, which led to a virtual standstill in transactions due to a considerable discrepancy between the price expectations of buyers and sellers. With the fall in interest rates since the beginning of the year, this gap has gradually begun to close, giving the transaction market more momentum. The successful capital increases for indirect property investments carried out in the first two quarters of this year are a clear sign of the market's renewed vitality.

Residential yield property prices are experiencing a positive trend, driven by falling interest rates and strong fundamental factors that are strengthening the earnings situation. The earlier increases in the mortgage reference interest rate together with the passing on of inflation have led to a significant increase in existing rents. The continuing excess demand coupled with weak construction activity is leading to falling vacancy rates and further increases in asking rents. These factors continue to justify the prices for apartment buildings, even with higher yield expectations, which continues to make the residential property asset class attractive.

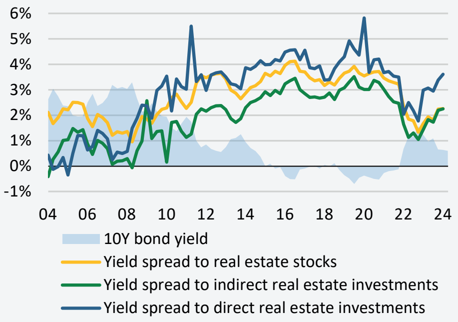
With the decline in bond yields on fixed-interest securities, property investments are becoming more attractive again. The difference between the cash flow yields of direct and indirect property investments and the yields of long-term German government bonds has now risen to between two and three per cent. This makes property investments particularly attractive for investors who are looking for stable and high returns over the long term. With the second fall in the key interest rate and the lower interest rates in the medium and longer segments of the yield curve, this spread is likely to remain and even increase.

Price indices for residential investment properties



Source: Fahrländer Partner, IAZI, Wüest Partner, SNB

Attractiveness of cash flow returns on real estate investments



Source: SIX Group AG, IAZI, Refinitiv Eikon

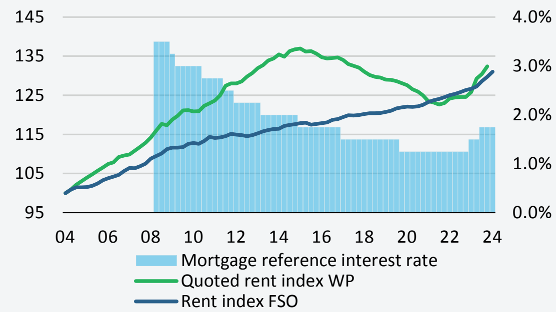
Rental property market

In the first quarter of this year, Wüest Partner's asking rent index recorded a record increase of over six per cent compared to the same quarter of the previous year. The rental flat market continues to be characterised by a shortage of supply, which is being held back by weakening construction activity, as well as high demand driven by positive economic growth and strong immigration.

The resulting excess demand is reflected in a low supply of listings and short advertising periods, which in some cities average just 10 days. These factors continue to drive up asking rents. However, the renewed easing of monetary policy should gradually provide the necessary impetus on the supply side, although this will only take effect in the medium term. Rents on offer are therefore expected to continue to rise in the short term.

Further increases in the mortgage reference rate are ruled out due to falling mortgage interest rates, which should give existing tenants cause to breathe a sigh of relief. However, the increasing discrepancy between asking rents and existing rents limits tenants' options for moving. It is becoming increasingly difficult to change flats without accepting a significant deterioration in the quality of living or financial situation. According to Wüest Partner, housing costs would account for more than a third of gross income for 28 per cent of households if they were to move to a comparable flat. These restrictions reduce relocation activity and reinforce the existing misallocation of living space.

Rental price development «Housing»



Source: Federal Statistical Office, Wüest Partner, SNB

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smzh ag
Tödistrasse 53, CH-8002 Zürich
+41 43 355 44 55
contact@smzh.ch
www.smzh.ch